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Building on the Basics Wisconsin's Experience with Preservation Tax Incentives

The National Historic Preservation Act of 1966 established the State Historic Preservation Offices' partnership with the National Park Service (NPS). The act developed the mission for the state and federal partnership, and provided to the states certain "tools" that state programs could use to address the particular needs of their constituents and historic resources. Between 1966 and 1980, these tools included the National Register of Historic Places, Section 106 compliance, Historic Preservation Fund subgrants, and preservation planning.

With the NPS providing standards and oversight, as well as technical assistance, each state created its own preservation office and each appointed its own liaison officer, later termed State Historic Preservation Officer (SHPO). Funding was minimal and "police power" all but non-existent. For example, Section 106 review could only benefit those resources affected by government action. The remaining historic resources could be identified but were not well protected. To be effective, state programs had to build state-based alliances and had to rely more on "friendly persuasion" than the weight of law—and on the limited incentives provided under the Act, namely grants-in-aid.

Matching grants were available for physical acquisition and preservation of historic properties. Although this program was useful, the amount of money was never adequate to meet the needs of potential applicants. Wisconsin, for example, was never able to meet more than 20% of its requests for funding. At best, the grants offered a safety net to the most endangered historic properties.

In 1976, Congress enacted the Tax Reform Act designed to put preservation projects on almost equal financial footing with new construction. Because the incentives were minimal—accelerated depreciation or a five-year write-off—the program was widely ignored. In the first five years, Wisconsin submitted only eight tax projects to the NPS for approval.

Then came the Economic Recovery Tax Act of 1981 which made the tax credit program one of the most powerful tools available to the SHPO offices. Nationally, the numbers of tax credit projects soared. Wisconsin jumped from 4 projects in 1981 to 21 projects in 1982 and stayed at that level throughout the 1980s. Over the history of the program, Wisconsin has been a strong beneficiary of federal tax incentives. Since 1978, more than 400 projects have been approved, totaling \$300 million of investment in tax credit-eligible work, and millions more in related construction. Clearly, this has had a positive effect on Wisconsin's economy and quality of life.

One of the striking features of this program is the great variety of historic buildings (and building owners) that have benefited from the program. Wisconsin includes among its successful projects, several multi-million dollar conversions of industrial complexes into housing units, rehabilitation of small Main Street buildings, upgrading of large industrial buildings that remain in their original uses, and repairs of small "Mom-and-Pop" retail stores.

Unlike many states, Wisconsin did not experience a substantial drop in activity after the Tax Reform Act of 1986, which reduced the tax credits. This is due in large part to one of the spin-off programs directly attributable to the federal tax credits: the 5% state credit. Like all states, Wisconsin experienced a higher rate of denial of certification when projects were submitted after the fact. As a means of reducing the denial rate, in 1987 Wisconsin created a 5% state tax credit for owners who waited for federal approval before beginning work. For those projects, the denial rate has effectively dropped to zero. There was one

The Thiemann Grocery and E. P. Bryan Drug Store in Sheboygan Falls, Wisconsin, were rehabilitated using the federal historic preservation tax incentives. These photos show the building before and after rehabilitation. Photos courtesy State Historical Society of Wisconsin.



The Cole Brothers House, Sheboygan Falls, Wisconsin, was rehabilitated as a real estate office using the federal historic preservation tax incentives. These photos show the building before and after rehabilitation. Photos courtesy State Historical Society of Wisconsin.



additional benefit: since the change, Wisconsin has experienced record numbers of projects, in some cases more than double the number of projects before 1986. In recent years, Wisconsin has ranked near the top in the number of approved tax credit projects. This is somewhat unexpected, considering Wisconsin's relatively small population and generally rural character.

The tax credits have prompted other spin-offs. For example, the large numbers of tax credit projects created pressure to remove impediments to building rehabilitation, such as building codes designed for new construction but at odds with the sensitive rehabilitation of older and historic buildings. Although unfair building codes had been a complaint of building owners for years, it was the tax credit program that generated the momentum to cause the creation of a separate code for historic buildings. In 1982, with the help and support of numerous preservation allies, Wisconsin created its historic building code that provided an alternative to the prevailing commercial code and its system of endless petitions.

The alliances developed early in this program, as well as new allies from the development community, were instrumental in advancing the causes of historic preservation into new areas. In 1984, with the assistance of the National Trust for Historic Preservation, there emerged a Historic Preservation Task Force to plan a legislative agenda. A substantial number of task force members were owners or consultants who had participated in the tax credit program.

As part of this effort, Wisconsin created its own tax credit program for historic homes. The success of the federal tax credit program demonstrated that tax credits could be an effective way of leveraging private sector money for the preservation of existing and historic buildings. On the other hand, the task force members recognized that only a small portion of Wisconsin's historic buildings qualified for that program, and also recognized that home owners, the largest block of historic building owners in Wisconsin, were also the least likely to receive inducements to carry out sympathetic work.

In 1987, Wisconsin created a system of 25% tax credits targeted to owners of historic houses, but open to all owners of non-depreciable properties. After correction of some technical problems in 1991, the program prospered. Starting with six projects in 1992, the program has more than doubled every two years and this trend is expected to continue. Last year, Wisconsin approved 68 applications worth \$2.2 million in eligible rehabilitation work, and at least \$2 million in related construction.

The task force also established the Wisconsin Main Street program, created property tax exemptions for archeological properties, regulated properties owned by local governments, and created a State Register of Historic Places which allowed more flexibility in passing state-based laws and creating statewide programs. Although these efforts did not relate directly to the historic preservation tax credit program, the constituency

The Lincoln Mills, Appleton, Wisconsin, was rehabilitated and converted into apartments, including affordable units using the federal historic preservation tax incentives. The rehabilitation of the mill and neighboring mill building represent a \$14 million investment in historic buildings. These photos show the Lincoln Mills building before and after rehabilitation. Photos courtesy State Historical Society of Wisconsin.



created by the tax credits did help to bring about passage of the whole act.

The Preservation Tax Incentives program, more than any other factor, has changed the way that historic buildings are restored, stabilized, and rehabilitated. Simply put, it has changed the way that Americans think about preservation. For example, in Wisconsin, prior to 1980, masonry repointing was carried out with power saws and Portland cement. Building cleaning was synonymous with sandblasting. Brick buildings were "waterproofed" with silicon which accelerated their deterioration. The pressure on developers to meet the *Secretary of the Interior's Standards for Rehabilitation* for purposes of the tax credits, has forced architects, owners, and contractors to examine their methods and adjust them to preserve both their buildings' features and materials. Unsympathetic practices, such as sandblasting, have declined, even when tax credits are not a factor.

Likewise, the building materials industry now produces materials more suited to older and historic buildings. Some improvements in products, such as better replacement windows, owe heavily to the insistence of the NPS that replacement windows replicate originals nearly exactly. To receive tax credits, owners demanded better windows and the manufacturers responded.

As much as the federal tax incentives program has promoted the rehabilitation of historic buildings, in Wisconsin it has also resulted in other positive changes. In terms of its effect on historic resources and its spin-off benefits to local governments and the private sector, the program has been enormously successful.

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Identifying Technical Preservation Issues Preservation Tax Incentives Projects

The federal historic Preservation Tax Incentives program constitutes the single most important generator of topics for technical assistance for historic preservation projects. During the past 20 years, issues identified during the rehabilitation of thousands of historic buildings have been brought to the attention of the Technical Preservation Services (TPS) staff of Heritage Preservation Services (HPS) in the National Park Service, and have been turned into publications such as the *Preservation Briefs*, *TechNotes*, *Standards and Guidelines*, and *Preservation Case Studies*. The NPS publications and preservation conferences are recognized by both the national as well as the international preservation community as outstanding sources of guidance and technical assistance when historic buildings are preserved.

In the passage of the National Historic Preservation Act in 1966, Congress identified the federal role in preserving historical and archeolog-

ical resources of national, regional, state, and local significance. Since 1976, the Internal Revenue Code has contained incentives for the rehabilitation of income-producing historic buildings that must meet the *Secretary of the Interior's Standards for Rehabilitation*. The HPS technical assistance program identifies appropriate approaches to preserving historic buildings so that owners of qualified properties can benefit from these tax incentives.

Historic buildings can be irretrievably damaged with an incorrect application of a repair treatment or inappropriate alterations to accommodate a new use. Therefore, technical preservation issues address both material conservation and design. The challenge to preservation professionals, e.g., architects, engineers, contractors, and craftsmen, is to balance the needs for the rehabilitated building with the preservation objectives of retaining significant materials and character. There is no comprehensive program that outlines a formula for rehabilitation. Each building has unique